

KANOSH TOWN
FINANCIAL STATEMENTS
JUNE 30, 2005

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Kanosh Town
Kanosh, Utah 84637

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanosh Town as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kanosh Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

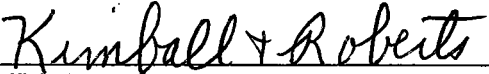
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanosh Town Corporation as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, on our consideration of Kanosh Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 15 and 43 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and Town Board
Kanosh Town

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanosh Town's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Kanosh Town. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 5, 2005
Richfield, Utah

**KANOSH TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2005**

This discussion of Kanosh Town's financial performance provides an overview of the Town's financial activities for the year ending June 30, 2005. This report is in conjunction with the Town's financial statements.

The purpose of the Town is to provide general services to its residents which includes general government, public safety, highways and public improvements, parks and recreation.

Financial Highlights

- * The assets of the Town exceeded its liabilities as of the close of the most recent year by \$1,657,913 (net assets). Of this amount, \$595,347 (unrestricted net assets) which may be used to meet its ongoing obligations to citizens and creditors.
- * The government's total net assets decreased by \$75,298. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts in the general fund.
- * At the close of the current year, the Town's governmental funds reported ending fund balance of \$347,224, a decrease of \$23,787 in comparison with the prior year. Approximately 81 percent of this total amount, \$281,846, is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$101,935, or 45 percent of total general fund expenditures.
- * The Town's total debt decreased by \$19,509 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, public health, highways and streets, and parks and recreation. The business-type activities of the Town are electric and water operations.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Kanosh Town maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The Town adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with those budgets. Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Kanosh Town maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric and water operations. Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kanosh Town's, assets exceeded liabilities by \$1,657,913 at the close of the most recent fiscal year. By far the largest portion of the Town's net assets (59 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Town's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$595,347) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Kanosh Town's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	373,339	400,508	357,570	402,318	730,909	802,826
Capital Assets	338,842	347,730	956,026	984,243	1,294,868	1,331,973
Total Assets	712,181	748,238	1,313,596	1,386,561	2,025,777	2,134,799
Long-Term Liabilities	-	-	315,180	334,689	315,180	334,689
Other Liabilities	26,115	29,497	26,569	37,402	52,684	66,899
Total Liabilities	26,115	29,497	341,749	372,091	367,864	401,588
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	338,842	347,730	638,146	646,754	976,988	994,484
Restricted	65,378	17,000	20,200	20,200	85,578	37,200
Unrestricted	281,846	354,011	313,501	347,516	595,347	701,527
Total Net Assets	686,066	718,741	971,847	1,014,470	1,657,913	1,733,211

Governmental Activities

Governmental activities decreased Kanosh Town's net assets by \$32,675.

Kanosh Town Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	86,161	46,894	203,375	226,331	289,536	273,225
Operating Grants	38,506	80,506	-	-	38,506	80,506
Capital Grants	31,910	-	-	157,680	-	157,680
General Revenues:						
Property Taxes	8,273	3,461	-	-	8,273	3,461
Other Taxes	44,697	35,333	-	-	44,697	35,333
Unrestricted Investment Earnings	8,283	7,831	6,065	3,690	14,348	11,521
Total Revenues	217,830	174,025	209,440	387,701	395,360	561,726
Expenses:						
General Government	84,186	93,824	-	-	84,186	93,824
Public Safety	38,170	28,333	-	-	38,170	28,333
Public Health	24,138	19,018	-	-	24,138	19,018
Highways and Public Improvements	73,686	79,212	-	-	73,686	79,212
Culture and Recreation	30,325	46,236	-	-	30,325	46,236
Water, Garbage & Landfill	-	-	252,063	193,910	252,063	193,910
Total Expenses	250,505	266,623	252,063	193,910	502,568	460,533
Increase in Net Assets Before Transfers	(32,675)	(92,598)	(42,623)	193,791	(107,208)	101,193
Transfers	0	60,000	0	(60,000)	0	0
Increase in Net Assets	(32,675)	(32,598)	(42,623)	133,791	(75,298)	101,193
Net Assets - Beginning	718,741	751,339	1,014,470	880,679	1,733,211	1,632,018
Net Assets - Ending	686,066	718,741	971,847	1,014,470	1,657,913	1,733,211

* The City received operating grants of \$38,506. The material grant amounts were; \$27,577 for Class C Roads, and \$10,929 for Public Safety.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities decreased the Town's net assets by \$42,623.

- * The total increase in the business-type activity costs were mainly due to administrative costs from the General Fund.
- * The depreciation in the enterprise funds was the same as the prior year.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, the Town's governmental fund (general fund) reported combined ending fund balances of \$105,935, a decrease of \$25,798 in comparison with the prior year. Approximately 81% percent of this amount (\$101,935) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) \$4,000 to highways and public improvements.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45 percent of total general fund expenditures, while total fund balance represents 46 percent of that same amount.

Proprietary Funds

The Town's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the electric and water funds at the end of the year were \$313,501. Other factors concerning the finances of these funds has already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The difference between the original and final budget was an increase of \$36,290. Changes were as follows:

- | | |
|---|--|
| * General government decreased by \$5,231. | * Public safety increased by \$20,000. |
| * Highways and public improvements decreased by \$18,979. | * Public health increased by \$5,000. |
| * Parks and recreation increased \$35,500. | |

Actual revenues were less than budgeted revenues by \$146,523 and actual expenditures were less than budgeted expenditures by \$120,726 resulting in a net decrease in fund balance of \$25,797.

Capital Asset and Debt Administration

Capital Assets

Kanosh Town's investment in capital assets for its governmental activities as of June 30, 2005, was \$338,842 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads.

The total decrease in the Town's investment in capital assets for the current year was \$8,888. Major capital asset events during the current year included the following:

- * 60KW Generator for \$26,900.

Kanosh Town's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	43,168	43,168	15,688	15,688	58,856	58,856
Infrastructure	203,699	229,162	-	-	203,699	229,162
Buildings	18,200	19,350	-	-	18,200	19,350
Improvements Other than Buildings	16,200	17,100	-	-	16,200	17,100
Water System			699,715	719,200	699,715	719,200
Electric System			240,623	249,355	240,623	249,355
Equipment	57,575	38,950			57,575	38,950
Total	338,842	347,730	956,026	984,243	1,294,868	1,331,973

Additional information on the Town's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, the Town's had total bonded debt outstanding of \$315,180. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Kanosh Town's Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue Bonds	-	-	315,180	334,689	315,180	334,689

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the Town. The Town has no general obligation debt.

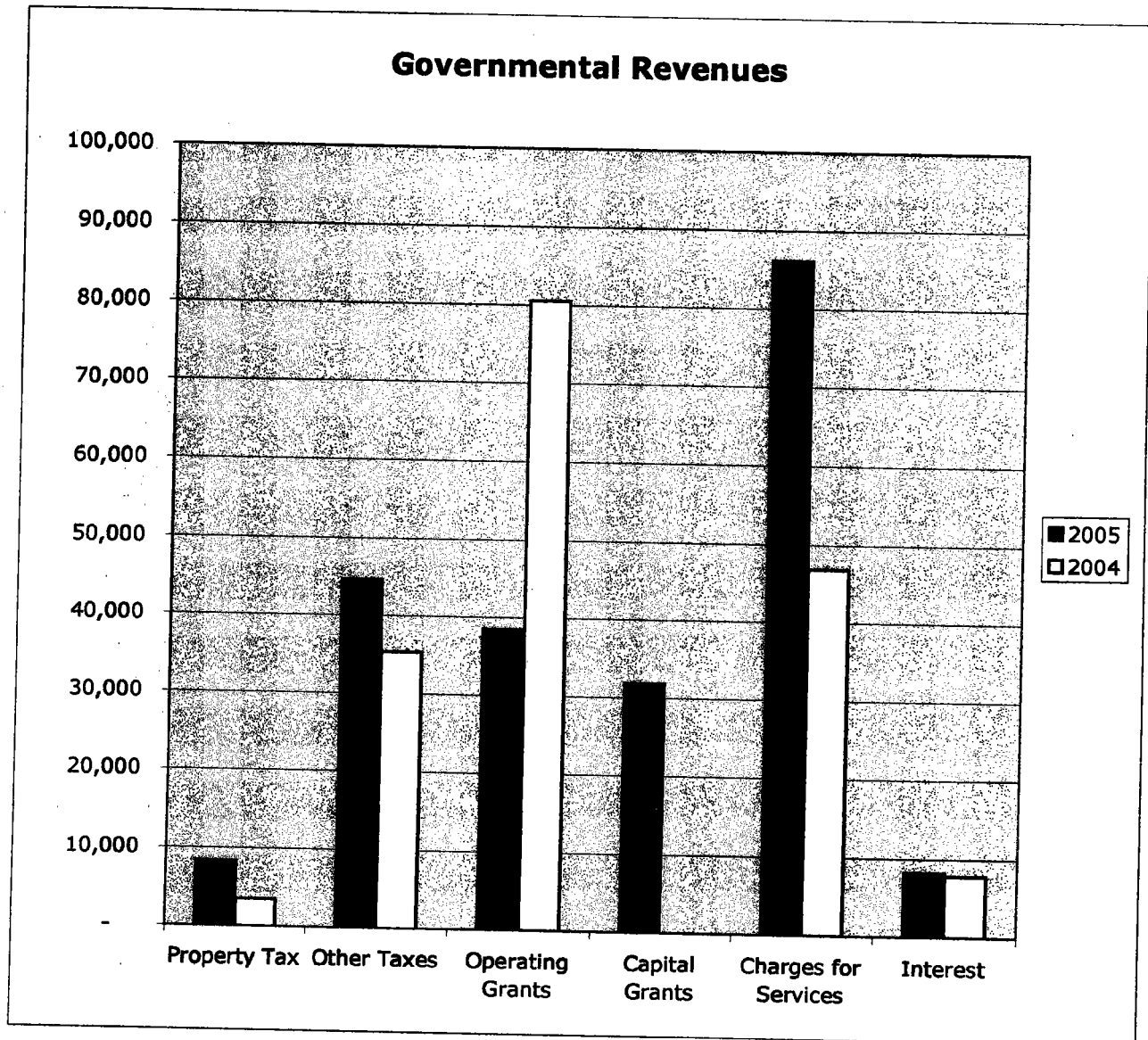
Additional information on Kanosh Town's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Kanosh Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kanosh Town Clerk, P.O. Box 96, Kanosh, Utah, 84637-0096.

**Kanosh Town
Governmental Revenues
For The Fiscal Years Ending June 30, 2005 and 2004**

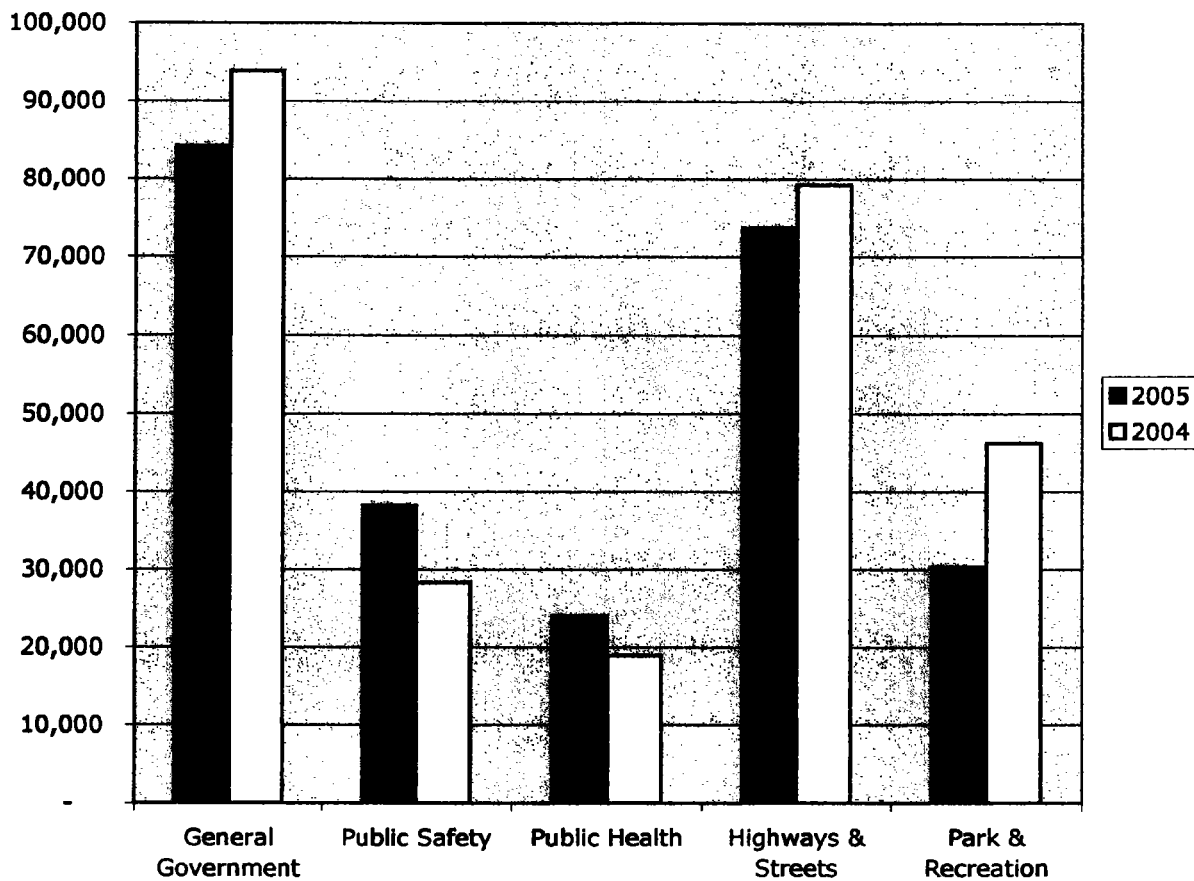
	2005	2004
Property Tax	8,273	3,461
Other Taxes	44,697	35,333
Operating Grants	38,506	80,506
Capital Grants	31,910	-
Charges for Services	86,161	46,894
Interest	8,283	7,831
Total Revenues	217,830	174,025



Kanosh Town
Governmental Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
General Government	84,186	93,824
Public Safety	38,170	28,333
Public Health	24,138	19,018
Highways & Streets	73,686	79,212
Park & Recreation	30,325	46,236
Total Expenditures	250,505	266,623

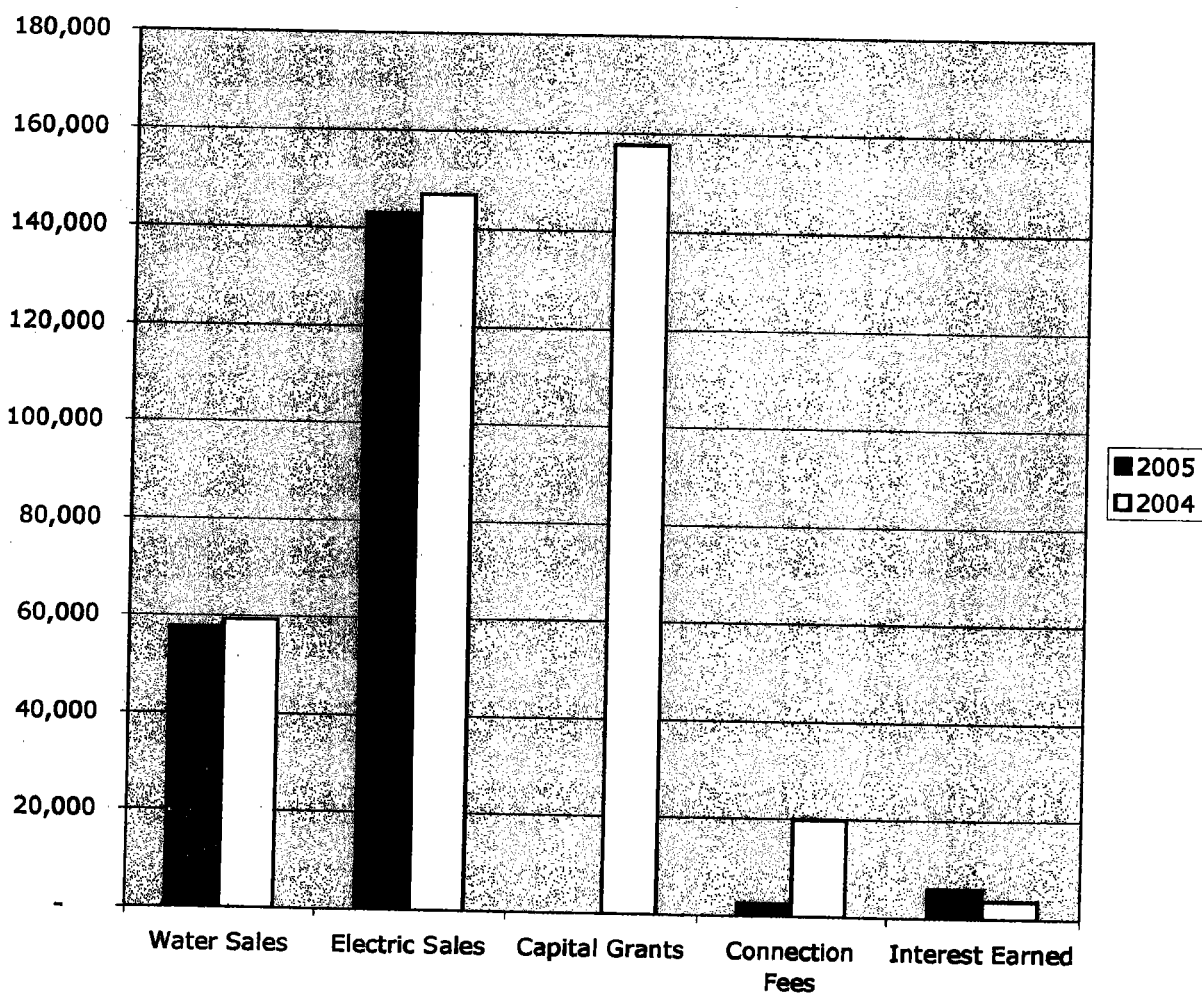
Governmental Expenditures



Kanosh Town
Business-Type Revenues
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Water Sales	57,626	59,350
Electric Sales	143,099	147,060
Capital Grants	-	157,680
Connection Fees	2,650	19,919
Interest Earned	6,065	3,691
Total Revenues	209,440	387,700

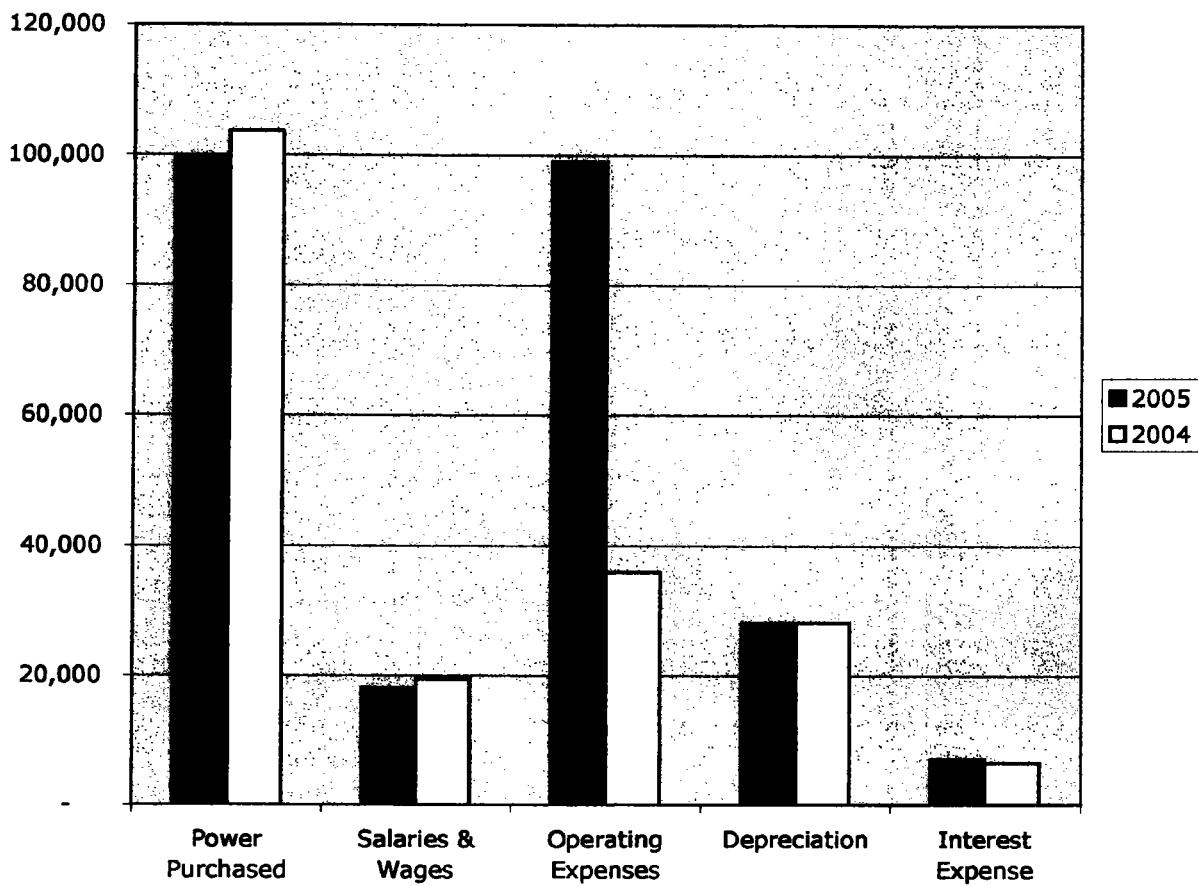
Business-Type Revenues



Kanosh Town
Business Type Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Power Purchased	99,612	103,678
Salaries & Wages	18,116	19,543
Operating Expenses	99,014	35,931
Depreciation	28,217	28,217
Interest Expense	7,103	6,542
Total Expenditures	252,062	193,911

Business-Type Expenditures



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is used to assist in formatting, for easier reading)

BASIC FINANCIAL STATEMENTS

**KANOSH TOWN
STATEMENT OF NET ASSETS**

June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	365,373	307,315	672,688
Accounts Receivable (Net)	2,235	30,055	32,290
Due From Other Government Units	5,731	-	5,731
Total Current Assets	<u>373,339</u>	<u>337,370</u>	<u>710,709</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	20,200	20,200
Capital Assets (Net of Accumulated Depreciation):			
Land	43,168	15,688	58,856
Buildings	18,200	-	18,200
Improvements Other Than Buildings	16,200	-	16,200
Equipment	57,575	-	57,575
Water System	-	699,715	699,715
Electric System	-	240,623	240,623
Infrastructure	203,699	-	203,699
Total Noncurrent Assets	<u>338,842</u>	<u>976,226</u>	<u>1,315,068</u>
TOTAL ASSETS	<u><u>712,181</u></u>	<u><u>1,313,596</u></u>	<u><u>2,025,777</u></u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	26,115	18,397	44,512
Accrued Liabilities	-	947	947
Deposits Payable	-	4,525	4,525
Bond Interest Payable	-	2,700	2,700
Revenue Bonds Payable - Due Within One Year	-	19,377	19,377
Total Current Liabilities	<u>26,115</u>	<u>45,946</u>	<u>72,061</u>
Noncurrent Liabilities:			
Revenue Bonds Payable - Due More Than One Year	-	295,803	295,803
TOTAL LIABILITIES	<u>26,115</u>	<u>341,749</u>	<u>367,864</u>
NET ASSETS			
Investment in Capital Assets, Net of Debt	338,842	638,146	976,988
Restricted For:			
Bond Retirement	-	20,200	20,200
Class C Road	4,000	-	4,000
Perpetual Care	61,378	-	61,378
Unrestricted	281,846	313,501	595,347
TOTAL NET ASSETS	<u>686,066</u>	<u>971,847</u>	<u>1,657,913</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>712,181</u></u>	<u><u>1,313,596</u></u>	<u><u>2,025,777</u></u>

The notes to the financial statements are an integral part of this statement.

**KANOSH TOWN
STATEMENT OF ACTIVITIES**

For The Fiscal Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Governmental Activities	Business-Type Activities	Total
Function/Programs Primary Government:							
Governmental Activities:							
General Government	84,186	57,177	-	-	(27,009)	-	(27,009)
Public Safety	38,170	2,581	10,929	31,910	7,250	-	7,250
Public Health	24,138	19,345	-	-	(4,793)	-	(4,793)
Streets and Public Improvements	73,686	-	27,577	-	(46,109)	-	(46,109)
Park and Recreation	30,325	7,058	-	-	(23,267)	-	(23,267)
Total Governmental Activities	250,505	86,161	38,506	31,910	(93,928)	-	(93,928)
Business-Type Activities:							
Water Fund	48,443	57,625	-	-	-	9,182	9,182
Electric Fund	203,619	143,099	-	-	-	(60,520)	(60,520)
Total Business-Type Activities	252,062	200,724	-	-	-	(51,338)	(51,338)
Total Primary Government	502,567	286,885	38,506	31,910	(93,928)	(51,338)	(145,266)
General Revenues:							
Property Taxes					8,273	-	8,273
Sales Taxes					44,697	-	44,697
Connection Fees					-	2,650	2,650
Unrestricted Investment Earnings					8,283	6,065	14,348
Total General Revenues and Transfers					61,253	8,715	69,968
Change in Net Assets							
Net Assets - Beginning					(32,675)	(42,623)	(75,298)
Net Assets - Ending					718,741	1,014,470	1,733,211
					686,066	971,847	1,657,913

The notes to the financial statements are an integral part of this statement.

**KANOSH TOWN
BALANCE SHEET
GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	124,084	174,978	66,311	365,373
Accounts Receivable (Net)	2,235	-	-	2,235
Due From Other Government Units	5,731	-	-	5,731
TOTAL ASSETS	<u>132,050</u>	<u>174,978</u>	<u>66,311</u>	<u>373,339</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	26,115	-	-	26,115
Total Liabilities	<u>26,115</u>	<u>-</u>	<u>-</u>	<u>26,115</u>
Fund Balances:				
Reserved For:				
Class C Road	4,000	-	-	4,000
Perpetual Care	-	-	61,378	61,378
Unreserved, Reported In:				
General Fund	101,935	-	-	101,935
Special Revenue Funds	-	-	4,933	4,933
Capital Project Fund	-	174,978	-	174,978
Total Fund Balance	<u>105,935</u>	<u>174,978</u>	<u>66,311</u>	<u>347,224</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>132,050</u>	<u>174,978</u>	<u>66,311</u>	<u>373,339</u>

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Fund Types	347,224
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	43,168	
Buildings	189,200	
Improvements Other Than Buildings	16,200	
Equipment	57,575	
Infrastructure	<u>203,699</u>	

Total		<u>338,842</u>
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Net Assets of Government Activities	<u><u>686,066</u></u>
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KANOSH TOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	52,970	-	-	52,970
Licenses and Permits	5,060	-	-	5,060
Intergovernmental Revenue	60,132	-	10,284	70,416
Charges for Services	72,566	-	-	72,566
Interest	8,283	-	-	8,283
Miscellaneous Revenues	3,192	-	5,343	8,535
	<u>202,203</u>	<u>-</u>	<u>15,627</u>	<u>217,830</u>
Total Revenues				
	<u>202,203</u>	<u>-</u>	<u>15,627</u>	<u>217,830</u>
Expenditures:				
Current:				
General Government	83,936	-	-	83,936
Public Safety	22,459	-	13,616	36,075
Public Health	24,138	-	-	24,138
Streets and Public Improvements	42,153	-	-	42,153
Parks and Recreation	28,415	-	-	28,415
Capital Outlay	26,900	-	-	26,900
	<u>228,001</u>	<u>-</u>	<u>13,616</u>	<u>241,617</u>
Total Expenditures				
	<u>228,001</u>	<u>-</u>	<u>13,616</u>	<u>241,617</u>
Net Change In Fund Balance	(25,798)	-	2,011	(23,787)
Fund Balance - Beginning	131,733	174,978	64,300	371,011
Fund Balance - Ending	<u>105,935</u>	<u>174,978</u>	<u>66,311</u>	<u>347,224</u>

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds (23,787)

Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period:

Capital Outlay	26,900	
Depreciation Expense	<u>(35,788)</u>	
		<u>(8,888)</u>
Total		<u>(8,888)</u>

Changes In Net Assets of Governmental Activities		<u><u>(32,675)</u></u>
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**KANOSH TOWN
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity Enterprise Fund		
	Water Fund	Electric Fund	Totals
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	170,217	137,098	307,315
Accounts Receivable	7,382	22,673	30,055
Total Current Assets	177,599	159,771	337,370
Noncurrent Assets:			
Investments - Restricted:			
Bond Retirement	20,200	-	20,200
Capital Assets: (Net of Accum. Depr.)			
Land	15,688	-	15,688
Improvements Other Than Buildings	699,715	240,623	940,338
Total Noncurrent Assets	735,603	240,623	976,226
TOTAL ASSETS	913,202	400,394	1,313,596
LIABILITIES:			
Current Liabilities:			
Accounts Payable	-	18,397	18,397
Accrued Liabilities	-	947	947
Customer Deposits	775	3,750	4,525
Bond Interest Payable	2,700	-	2,700
Bonds Payable - Current Portion	19,377	-	19,377
Total Current Liabilities	22,852	23,094	45,946
Noncurrent Liabilities:			
Bonds Payable - Long-Term Portion	295,803	-	295,803
TOTAL LIABILITIES	318,655	23,094	341,749
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	397,523	240,623	638,146
Restricted for Bonded Retirement	20,200	-	20,200
Unrestricted	176,824	136,677	313,501
TOTAL NET ASSETS	594,547	377,300	971,847
TOTAL LIABILITIES AND NET ASSETS	913,202	400,394	1,313,596

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Fund		
	Water Fund	Electric Fund	Totals
Operating Revenues:			
Charges for Sales and Services:			
Water	57,626	-	57,626
Electricity	-	143,099	143,099
Total Operating Revenues	57,626	143,099	200,725
Operating Expenses:			
Salaries and Wages	10,444	7,672	18,116
Maintenance and Operations	11,411	87,603	99,014
Purchase of Power	-	99,612	99,612
Depreciation	19,485	8,732	28,217
Total Operating Expenses	41,340	203,619	244,959
Operating Income	16,286	(60,520)	(44,234)
Nonoperating Revenues (Expenses):			
Investment Earnings	3,165	2,900	6,065
Connection Fees	-	2,650	2,650
Interest Expense	(7,103)	-	(7,103)
Total Nonoperating Revenues (Expenses)	(3,938)	5,550	1,612
Change in Net Assets	12,348	(54,970)	(42,622)
Total Net Assets - Beginning	582,199	432,270	1,014,469
Total Net Assets - Ending	594,547	377,300	971,847

The notes to the financial statements are an integral part of this statement.

**KANOSH TOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity - Enterprise Fund		
	Water Fund	Electric Fund	Totals
Cash Flows From Operating Activities:			
Receipts From Customers	59,351	139,574	198,925
Payments to Suppliers	(15,326)	(194,033)	(209,359)
Payments to Employees	(10,444)	(7,672)	(18,116)
Net Cash Provided by Operating Activities	<u>33,581</u>	<u>(62,131)</u>	<u>(28,550)</u>
Cash Flows From Capital and Related Financing Activities:			
Principal Paid on Capital Debt	(19,509)	-	(19,509)
Interest Paid on Capital Debt	(7,203)	-	(7,203)
Connection Fees	-	2,650	2,650
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(26,712)</u>	<u>2,650</u>	<u>(24,062)</u>
Cash Flows from Investing Activities:			
Interest Received	3,165	2,900	6,065
Federal and State Grants	<u>13,270</u>	<u>-</u>	<u>13,270</u>
Net Cash Provided (Used) by Investing Activities	<u>16,435</u>	<u>2,900</u>	<u>19,335</u>
Net Increase (Decrease) in Cash and Cash Equivalents	23,304	(56,581)	(33,277)
Cash and Cash Equivalents - Beginning	<u>167,113</u>	<u>193,679</u>	<u>360,792</u>
Cash and Cash Equivalents - Ending	<u><u>190,417</u></u>	<u><u>137,098</u></u>	<u><u>327,515</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:			
Operating Income	<u>16,286</u>	<u>(60,520)</u>	<u>(44,234)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:			
Depreciation	19,485	8,732	28,217
Increase (Decrease) in Operating Assets:			
Accounts Receivable	1,725	(3,525)	(1,800)
Accounts Payable	(4,040)	(6,798)	(10,838)
Deposits Payable	<u>125</u>	<u>(20)</u>	<u>105</u>
Total Adjustments	<u>17,295</u>	<u>(1,611)</u>	<u>15,684</u>
Net Cash Provided (Used) by Operating Activities	<u><u>33,581</u></u>	<u><u>(62,131)</u></u>	<u><u>(28,550)</u></u>

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kanosh Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

The following is a summary of the more significant policies:

A. Reporting Entity

Kanosh Town is a municipal corporation in Millard County, Utah. It is governed by an elected mayor and a four member board. As required by generally accepted accounting principles, these financial statements are of the primary government, Kanosh Town, the reporting entity. The Town has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Kanosh Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The Government also reports the following Other Governmental Funds:

Fire Department and Perpetual Care. These funds account for revenue sources that are restricted to expenditures for specific purposes.

The Perpetual Care Permanent Fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the cemetery.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Government reports the following Proprietary Funds:

The Utility Funds accounts for the activities of the Town water and electric operations. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and electric funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Water System	50 Years
Electric System	50 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting:

The governing body of the entity shall establish the time and place of the public hearing to consider the adoption of the budget and shall publish notice of the hearing at least seven days prior to the hearing (no time period given for towns) in at least one issue of the newspaper of general circulation published within the County in which the entity is located. If no such newspaper is published, the required notice may be posted in three public places within the entity's jurisdiction. The tentative budget must be made available to the public for inspection for a number of days, as provided by law, prior to the budget hearing.

1. On or before the first regularly scheduled meeting of the Town Board in the month of May, the mayor prepares a tentative budget for the next budget year.
2. After a public notice has been published, a public hearing is then held on the adoption of the budget.
3. After the public hearing, the Town Board makes final adjustments to the tentative budget.
4. On or before June 22, the Town Board adopts the budget by resolution or ordinance and sets the tax rate for taxes.
5. The budget officer may transfer unexpended budgeted amounts within departments.
6. The Town Board may transfer unexpended budgeted amounts from one department in a fund to another department in the same fund by resolution.
7. The total budget appropriation of any governmental fund may be increased only after a public hearing has been held and followed by resolution of the Town Board.
8. Proprietary Fund budgets may be increased without a public hearing by resolution of the Town Board.
9. Budgets for the General fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Fiscal Procedures Act for Utah Towns require local municipalities to restrict expenditures to authorized departmental budgets. The combined statement of revenues, expenditures and changes in fund balance - budget and actual identifies the departments and funds which have overexpended budgeted amounts if any and, therefore, do not comply with appropriate fiscal procedures.

F. Property Tax Calendar:

January 1	Lien Date - All property appraised based upon situs and status as of this date (real and personal).
March 1	Calendar year taxing entities must inform the County of the date, time and place of the budget hearing for the next fiscal year for inclusion with tax notice.
June 22	All taxing entities to adopt tentative budgets and proposed tax rates and report them to the county auditor.
July 22	County auditor to prepare and mail Notice of Valuation and Tax Changes to all real property owners, including centrally assessed property owners or in the event that Notices of Valuation and Tax Changes are not required, the county auditor is to compute taxes and the county treasurer is to mail tax notices.
September 1	State Tax Commission approves tax rates.
November 1	County auditor is to deliver the equalized assessment roll to the county treasurer with affidavit.
November 1	County auditor to charge the county treasurer to account for all taxes levied.
November 1	County treasurer to mail tax notices. Tax notices for calendar year entities include notice of budget hearings.
November 30	Taxes on real property becomes delinquent.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

Kanosh Town maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents".

Deposits:

At year end, the carrying amount of the Town's deposits was \$8,544 and the bank balance was \$16,505. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council.

Investments:

Statutes authorize the Town to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standards & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and State Treasurer's Investment Pool. The Town is also authorized to enter into reverse repurchase agreements.

The Town's investments are categorized below to give an indication of the risk assumed by the Town at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town in the Town's name, and includes deposits collateralized by securities held by the Town in the Town's name. Category 2 includes uninsured and unregistered investments for which the investments are held by a broker or dealer in the Town's name, and includes deposits collateralized by securities held by the pledging institution in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer but not in the Town's name, and includes deposits not insured or collateralized.

Investments at June 30, 2005, consisted of the following:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value and Carrying Amount</u>
Investments	<u>-</u>	<u>-</u>	<u>-</u>	-
Other Items:				
State Treasurer's Investment Pool				<u>684,344</u>
Total				<u>684,344</u>

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The Utah Public Treasurer's Investment Fund is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The Utah Public Treasurer's Investment Fund is not rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

Cash is reflected in the financial statements as follows:

Governmental	365,373
Proprietary	<u>327,515</u>
Total	<u><u>692,888</u></u>

NOTE 3 - BOND RESERVES

The Water Revenue Bonds require the following reserves:

1980 Series A - \$57 per month / maximum of	6,780
1985 Series B - \$37 per month / maximum of	3,750
1985 Series B - \$32 per month / maximum of	3,200
2003 Series - \$135.25 per month / maximum of	<u>17,000</u>
Total	<u><u>30,730</u></u>

The balance of reserves at year end designated by the Town was \$20,200.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	30,000	-	-	30,000
Land Related to Infrastructure	<u>13,168</u>	<u>-</u>	<u>-</u>	<u>13,168</u>
 Total Capital Assets Not Being Depreciated	 <u>43,168</u>	 <u>-</u>	 <u>-</u>	 <u>43,168</u>
Capital Assets Being Depreciated:				
Buildings	46,000	-	-	46,000
Improvements Other Than Bldgs	18,000	-	-	18,000
Equipment	69,300	26,900	-	96,200
Infrastructure	<u>509,250</u>	<u>-</u>	<u>-</u>	<u>509,250</u>
 Total Capital Assets Being Depreciated	 <u>642,550</u>	 <u>26,900</u>	 <u>-</u>	 <u>669,450</u>
Less Accumulated Depreciation For:				
Buildings	26,650	1,150	-	27,800
Improvements Other Than Bldgs	900	900	-	1,800
Equipment	30,350	8,275	-	38,625
Infrastructure	<u>280,088</u>	<u>25,463</u>	<u>-</u>	<u>305,551</u>
 Total Accumulated Depreciation	 <u>337,988</u>	 <u>35,788</u>	 <u>-</u>	 <u>373,776</u>
 Total Capital Assets Being Depreciated (Net)	 <u>304,562</u>	 <u>(8,888)</u>	 <u>-</u>	 <u>295,674</u>
 Governmental Activities Capital Assets, Net	 <u>347,730</u>	 <u>(8,888)</u>	 <u>-</u>	 <u>338,842</u>

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	15,688	-	-	15,688
Total Capital Assets Not Being Depreciated	15,688	-	-	15,688
Capital Assets Being Depreciated:				
Water System	974,245	-	-	974,245
Electric System	436,600	-	-	436,600
Total Capital Assets Being Depreciated	1,410,845	-	-	1,410,845
Less Accumulated Depreciation For:				
Water System	255,045	19,485	-	274,530
Electric System	187,245	8,732	-	195,977
Total Accumulated Depreciation	442,290	28,217	-	470,507
Total Capital Assets Being Depreciated (Net)	968,555	(28,217)	-	940,338
Business Type Activities Capital Assets, Net	984,243	(28,217)	-	956,026
Total Capital Assets	<u>1,331,973</u>	<u>(37,105)</u>	<u>-</u>	<u>1,294,868</u>

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
General Government	250	-	250
Public Safety	2,095	-	2,095
Public Health	-	28,217	28,217
Highways and Public Improvements	31,533	-	31,533
Parks and Recreation	1,910	-	1,910
Total Depreciation Expense	<u>35,788</u>	<u>28,217</u>	<u>64,005</u>

NOTE 5 - LONG-TERM DEBT

1980 Water Revenue Bonds - Series A:

During 1980 the Town issued water revenue bonds in the amount of \$115,800 with interest at 5%.
The following is a schedule of debt service to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	3,627	2,971	6,598
2006-2007	3,809	2,781	6,590
2007-2008	4,000	2,581	6,581
2008-2009	4,200	2,371	6,571
2009-2010	4,409	2,151	6,560
2011-2015	25,580	7,040	32,620
2016-2020	16,705	842	17,547
Total	<u>62,330</u>	<u>20,737</u>	<u>83,067</u>

1985 Water Revenue Bonds - Series B:

During 1985 the Town issued water revenue bonds in the amount of \$75,000 with interest at 0%.
The following is a schedule of debt service to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	<u>3,750</u>	<u>-</u>	<u>3,750</u>

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds - Series 2003:

The Town has obtained financing for the purpose of constructing a new water tank and culinary water lines. The funding for the project is as follows:

Drinking Water Board Loan	340,000.00
CDBG Grant	90,000.00
Local Share (Kanosh)	<u>30,000.00</u>
Total	<u><u>460,000.00</u></u>

The Drinking Water board will forgive 20% or \$65,285 of the \$326,385 loan. The balance of the loan, \$261,100, requires yearly payments including interest at 1.44%.

The following is a schedule of debt service to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	12,000	3,587	15,587
2006-2007	12,000	3,414	15,414
2007-2008	13,000	3,241	16,241
2008-2009	13,000	3,054	16,054
2009-2010	13,000	2,867	15,867
2011-2015	67,000	11,513	78,513
2016-2020	72,000	6,545	78,545
2021-2025	<u>47,100</u>	<u>1,140</u>	<u>48,240</u>
Total	<u><u>249,100</u></u>	<u><u>35,361</u></u>	<u><u>284,461</u></u>

The bond requires a bond reserve payment of \$135.25 per month for 120 months to a maximum of \$16,230.00. In addition the Town is required to maintain a capital replacement fund equal to 5% of the operating budget including debt service payments.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in bonds payable at June 30, 2005:

Bond Issue:	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2004	Current Year Changes		Outstanding June 30, 2005
					Issued	Matured	
Water Revenue Bonds Series A	1980	5%	115,800	66,089	-	3,759	62,330
Water Revenue Bonds Series B	1985	0%	75,000	7,500	-	3,750	3,750
Water Revenue Bonds Series 2003	2003	1.44%	261,100	261,100	-	12,000	249,100
Total			<u>451,900</u>	<u>334,689</u>	<u>-</u>	<u>19,509</u>	<u>315,180</u>

The following is a five year maturity of long-term debt:

	Principal	Interest	Total
2005-2006	19,377	6,558	25,935
2006-2007	15,809	6,195	22,004
2007-2008	17,000	5,822	22,822
2008-2009	17,200	5,425	22,625
2009-2010	17,409	5,018	22,427
2011-2015	92,580	18,553	111,133
2016-2020	88,705	7,387	96,092
2021-2025	47,100	1,140	48,240
	<u>315,180</u>	<u>56,098</u>	<u>371,278</u>

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - CLASS "C" ROADS

The following is a schedule of receipts and expenditures in Class "C" Roads:

Balance - Beginning of Year		17,000
Receipts:		
State Allotments	27,577	
Interest	<u>1,576</u>	
Total Receipts		29,153
Expenditures		<u>(42,153)</u>
Balance - End of Year		<u><u>4,000</u></u>

NOTE 7 - SPECIAL REVENUE FUND

During 1987 Kanosh Town joined the Millard County Fire District which is a Special Service District. The Special Service District levies and collects taxes for the members of the Fire District. These monies are then remitted, based upon an agreed formula, to the towns involved in the District to be used for fire control.

The following is a statement of changes in the fire department of the Special Revenue Fund:

Fund Balance - Beginning of Year		6,759
Revenues:		
Special Service District	10,284	
Other	<u>1,506</u>	
Total Revenues		11,790
Expenditures		
Materials and Supplies	(9,120)	
Gas and Oil	(2,368)	
Utilities	(1,628)	
Services	<u>(500)</u>	
Total Expenditures		<u>(13,616)</u>
Fund Balance - End of Year		<u><u>4,933</u></u>

**KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

NOTE 8 - PERMANENT FUND - PERPETUAL CARE

The following is a statement of changes in the Cemetery Perpetual Care Fund:

Fund Balance - Beginning of Year	57,541
Revenues	3,837
Expenditures	<u>-</u>
Fund Balance - End of Year	<u><u>61,378</u></u>

NOTE 9 - IMPACT FEES

During the year the Town approved implementing a water fee table, setting fees Kanosh can charge for impact fees for new water connections. The fee for 2003-2004 was \$1,000.00. The Town had a Culinary Water System Analysis and Impact Fee Analysis prepared prior to adopting the ordinance.

NOTE 10 - STATE RETIREMENT PLANS

Local Governmental - Cost Sharing:

Plan Description:

Kanosh Town is required to contribute, when they have employees meeting membership requirements to the Local Governmental Noncontributory Retirement System which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that included financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 10 - STATE RETIREMENT PLANS (CONTINUED)

Funding Policy:

Kanosh Town is required to contribute, when they have employees meeting membership requirements, a percent of covered salary to the following system; 11.09% to the Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Kanosh Town has no employees meeting membership so no contributions were made during the last three years.

NOTE 11 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries and disasters. The Town is insured through the Utah Local Government Trust for general liability coverage. The limits of coverage is \$1,000,000 with \$250 deductible for each occurrence for both comprehensive general liability and automobile liability. Uninsured motorist has a \$50,000 limit per each accident.

The Town is insured for property and equipment loss through the Utah Local Government Trust. This coverage is for all buildings and equipment owned by the Town. The coverage is for replacement cost with a \$250 deductible. The Town also has health and accident coverage for employees through the Trust.

Claims have not exceeded coverage in any of the last three calendar years.

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**KANOSH TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2004	131,733	131,733	131,733	-
Resources (Inflows):				
Taxes:				
General Property Taxes	5,460	5,460	5,500	40
Delinquent Prior Years Taxes	300	300	846	546
General Sales and Use Taxes	37,344	44,000	44,697	697
Fee-In-Lieu	1,200	1,500	1,927	427
Total Taxes	44,304	51,260	52,970	1,710
Licenses and Permits:				
Animal Licenses	1,300	450	1,075	625
Business Licenses	1,216	2,700	155	(2,545)
Building Permits	5,329	3,500	3,830	330
Total Licenses and Permits	7,845	6,650	5,060	(1,590)
Intergovernmental Revenue:				
Class C Road	35,302	38,000	27,577	(10,423)
State Liquor Allotment	572	300	645	345
State Grants	9,111	31,500	31,910	410
Total Intergovernmental Revenue	44,985	69,800	60,132	(9,668)
Charges for Services:				
Cemetery	3,500	4,000	2,970	(1,030)
Park and Recreation Fees	125	-	151	151
Refuse Collection Charges	20,000	20,000	19,345	(655)
Administrative Fee - Electric	70,000	72,000	50,000	(22,000)
Library Use Fees	-	-	100	100
Total Charges for Services	93,625	96,000	72,566	(23,434)
Miscellaneous Revenue:				
Interest	13,000	13,000	8,283	(4,717)
Rents	1,500	4,439	1,314	(3,125)
Contributions	-	3,500	-	(3,500)
Other	4,425	1,325	1,878	553
Use of Fund Balance	102,752	102,752	-	(102,752)
Total Miscellaneous Revenue	121,677	125,016	11,475	(113,541)
Amounts Available for Appropriation	444,169	480,459	333,936	(146,523)

**KANOSH TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note A)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges to Appropriations (Outflows):				
General Government:				
Salaries	2,000	20,000	19,865	135
Administration	64,600	69,000	64,070	4,930
Insurance	37,631	10,000	9,100	900
Total General Government	<u>104,231</u>	<u>99,000</u>	<u>93,035</u>	<u>5,965</u>
Public Safety:				
Fire Department	20,000	35,000	34,259	741
Emergency Services	1,000	6,000	6,000	0
Total Public Safety	<u>21,000</u>	<u>41,000</u>	<u>40,259</u>	<u>741</u>
Public Health:				
Sanitation	<u>20,000</u>	<u>25,000</u>	<u>24,138</u>	<u>862</u>
Highway and Public Improvements:				
Construction	87,205	10,000	-	10,000
Repairs and Maintenance	<u>50,000</u>	<u>108,226</u>	<u>42,153</u>	<u>66,073</u>
Total Highways and Public Improvements	<u>137,205</u>	<u>118,226</u>	<u>42,153</u>	<u>76,073</u>
Parks and Recreation:				
Cemetery	25,000	20,000	10,332	9,668
Parks	<u>5,000</u>	<u>45,500</u>	<u>18,083</u>	<u>27,417</u>
Total Culture and Recreation	<u>30,000</u>	<u>65,500</u>	<u>28,415</u>	<u>37,085</u>
Total Charges to Appropriations	<u>312,436</u>	<u>348,726</u>	<u>228,000</u>	<u>120,726</u>
Budgetary Fund Balance - June 30, 2005	<u>131,733</u>	<u>131,733</u>	<u>105,936</u>	<u>(25,797)</u>

KANOSH TOWN
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

For The Fiscal Year Ended June 30, 2005

General
Fund

Sources/Inflows and Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.

333,936

Differences - Budget to GAAP:

The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.

(131,733)

Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.

202,203

Uses/Outflows of Resources:

Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.

228,000

Differences - Budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting pruposes.

-

Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds

228,000

**COMBINING FINANCIAL
STATEMENTS AND SCHEDULES**

**KANOSH TOWN
NONMAJOR GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2005

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Fire Department Fund:

This fund is used to account for revenues received from the Millard County Fire District and related expenditures for fire protection.

PERMANENT FUND

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care Fund

This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

**KANOSH TOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2005

	<u>Fire Department</u>	<u>Permanent Fund Perpetual Care</u>	<u>Total Nonmajor Government Funds</u>
ASSETS			
Investments - Unrestricted	<u>4,933</u>	<u>61,378</u>	<u>66,311</u>
TOTAL ASSETS	<u><u>4,933</u></u>	<u><u>61,378</u></u>	<u><u>66,311</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved:			
Perpetual Care Fund	-	61,378	61,378
Unreserved, Reported in:			
Special Revenue Funds	<u>4,933</u>	<u>-</u>	<u>4,933</u>
Total Fund Balances	<u><u>4,933</u></u>	<u><u>61,378</u></u>	<u><u>66,311</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>4,933</u></u>	<u><u>61,378</u></u>	<u><u>66,311</u></u>

KANOSH TOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2005

	<u>Fire Department</u>	<u>Permanent Fund Perpetual Care</u>	<u>Total Nonmajor Government Funds</u>
Revenues:			
Intergovernmental	10,284	-	10,284
Miscellaneous	<u>1,506</u>	<u>3,837</u>	<u>5,343</u>
Total Revenues	<u>11,790</u>	<u>3,837</u>	<u>15,627</u>
Expenditures:			
Current:			
Public Safety	<u>13,616</u>	<u>-</u>	<u>13,616</u>
Total Expenditures	<u>13,616</u>	<u>-</u>	<u>13,616</u>
Net Change in Fund Balance	(1,826)	3,837	2,011
Fund Balances - Beginning	<u>6,759</u>	<u>57,541</u>	<u>64,300</u>
Fund Balances - Ending	<u><u>4,933</u></u>	<u><u>61,378</u></u>	<u><u>66,311</u></u>

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Town Council
Kanosh Town
Kanosh, Utah 84637

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kanosh Town as and for the year ended June 30, 2005, which collectively comprise Kanosh Town's basic financial statements and have issued our report thereon dated October 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kanosh Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

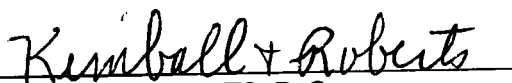
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kanosh Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Kanosh Town in a separate letter dated October 5, 2005.

Honorable Mayor and Town Council
Kanosh Town
Page -2-

This report is intended solely for the information and use of the audit committee, management, Town Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 5, 2005
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and Town Council
Kanosh Town Corporation
Kanosh, Utah 84637

We have audited the financial statements of Kanosh Town, for the fiscal year ended June 30, 2005, and have issued our report thereon dated October 5, 2005. As part of our audit, we have audited Kanosh Town's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2005. The Town received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Kanosh Town is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and Town Council
Kanosh Town
Page -2-

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Kanosh Town, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2005.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

March 5, 2005
Richfield, Utah

**KANOSH TOWN
MANAGEMENT LETTER
JUNE 30, 2005**

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and Town Council
Kanosh Town
Kanosh, Utah 84637

During our audit of the funds of Kanosh Town for the fiscal year ended June 30, 2005, we noted a circumstance that, if improved, would strengthen the Town's accounting system and control over its assets. This item is discussed below for your consideration.

INTERNAL CONTROL:

Cash

Finding:

During our audit of cash we noted that there were several overdraft charges against the Town

Recommendation:

We recommend that the Town transfer sufficient money to the checking account to insure that the account has money to cover checks written.

Response:

We reviewed the above finding with management and management agrees with the recommendation.

We would like to take this opportunity to thank Kanosh Town's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,


KIMBALL & ROBERTS, P.C.
Certified Public Accountants

October 5, 2005
Richfield, Utah